

JLC Position Paper
TAX RELIEF FOR VIRGINIA CITIZEN SOLDIERS CALLED TO ACTIVE DUTY

1. **ISSUE:** Provide income tax exemption to Virginia citizens who serve in the National Guard or Reserve and who are activated into full-time service outside the Continental United States in excess of 90 days.

2. **BACKGROUND:**

- Since September 11, 2001 almost 12,300 members of the Virginia Guard and Reserves have been activated to full time duty to perform in activities related to National Security. Some 8,000 of these individuals have served in combat zones, mostly in Afghanistan and Iraq. The remaining majority have served at duty locations throughout the United States. A few have served outside the United States at locations not declared as either a combat zone or a qualified hazardous duty area.
- As of June 13, 2007 there were an estimated 2,500 Virginia National Guard and Reserve members on active duty supporting national security missions out of a total nationwide of approximately 90,000.
- Additional Virginia National Guard members and Reservists are expected to be activated and deployed during the continuing national security effort.

3. **DISCUSSION:**

- Virginia income tax is based on reported federal adjusted gross income.
- Federal tax rules exclude pay earned by enlisted and warrant officers who serve in designated combat zones. For commissioned officers, the exclusion is limited to the highest rate of enlisted pay (about \$6,000 per month), plus imminent danger/hostile fire pay. Virginia Section 58.1-322[C] [21] then allows exemption for that portion of an officer's pay not excluded under federal rules.
- Members not serving in either a combat zone or a qualified hazardous duty area currently are allowed a subtraction that exempts up to \$15,000 of military basic pay, which is reduced to none when pay reaches \$30,000.
- The proposed additional subtraction would exempt 100% of pay and allowances for those activated National Guard and Reserve members who serve in excess of 90 days outside the United States.
- The anticipated additional exemption of income tax as a result of this proposal for Tax Year 2007 is approximately \$150,000.

4. **RECOMMENDATION:**

That the Governor and General Assembly pass legislation that to add a new section – §58.1-322(C)(33) to the Code of Virginia, providing an income tax exemption to Virginia citizens who serve in the National Guard or Reserve and who are activated into full-time service outside the Continental United States in excess of 90 days. Proposed language to read:

Effective for all taxable years beginning on or after January 1, 2007 all military pay included in the Federal adjusted gross income for National Guard and Reserve personnel on extended active duty for periods in excess of 90 days, and who serve outside the United States for 90 days or more in an area not designated as a combat zone or qualified hazardous duty area per Code of Virginia Section 58.1-322 [C] [21], may be exempted from Virginia income tax.